SD Q1 25

FIRST QUARTER 2025 MARKET REPORT

SAN DIEGO INDUSTRIAL

Voit REAL ESTATE SERVICES

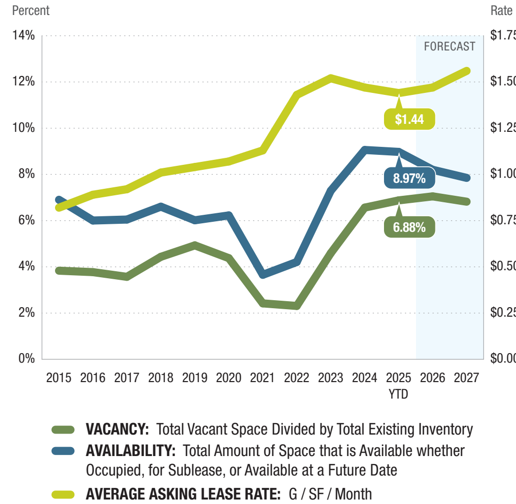
OVERVIEW. The tide has clearly shifted in the San Diego industrial market with the countywide vacancy rate tripling over the past two years and asking rental rates decreasing. Steadily since the start of 2024, landlords have taken a more aggressive approach in pursuing tenants, contributing to the bump in leasing activity in Q1.

VACANCY & AVAILABILITY. Direct / sublease space (unoccupied) finished Q1 at 6.88%, an increase of 32 basis points from the previous quarter's vacancy rate of 6.56%, and a jump of 1.5 percentage points compared with Q1 2024's rate of 5.38%. Available space being marketed (regardless of occupancy status) was 8.97% of the county's inventory at the end of Q1, effectively unchanged from the previous quarter. The vacancy rate can increase while the availability rate remains flat as new construction comes to completion, categorizing that already available space as newly vacant.

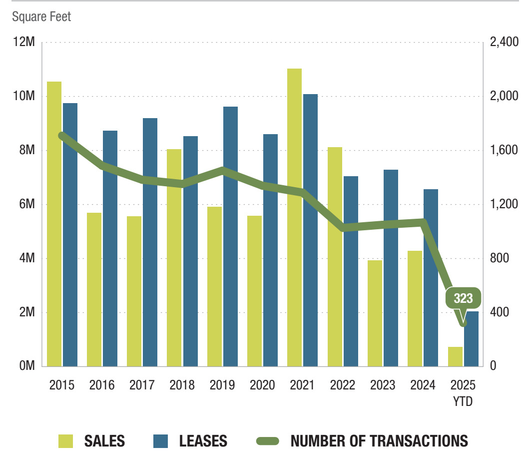
LEASE RATES. The average asking lease rate checked in at $1.44 per square foot per month, a three-cent decrease from the previous quarter. The San Diego industrial market had seen asking rental rates skyrocket in the post-Covid period, increasing from $1.04 in Q1 2020 to $1.52 at the end of 2023. But, over the course of the last five quarters, the average asking rate has decreased by a total of 5.3%. This only reflects the movement of average asking rates, while start rates and concessions such as free rent have moved in tenants' favor to a great extent. The bull market in industrial rent growth is over for now, as increasing vacancy has placed pressure on San Diego industrial landlords which had become accustomed to market conditions being overwhelmingly in their favor throughout the initial post-Covid years. Of course, the local balance of negotiating leverage across the county varies depending on the submarket and building characteristics. Despite the recent decline of starting rates, it is still common to see landlords insist on fixed annual rent increases greater than the 3% that had been standard for many years preceding Covid-19.

TRANSACTION ACTIVITY. There were 266 lease transactions recorded in Q1, well above the quarterly average of 221 transactions between 2021-2024. This is a significant increase, but still below the average for the preceding five years, which had a quarterly average of 295 lease transactions. Additionally, the 2 MSF of total leasing in Q1 was the largest in a quarter for two years, and the second largest quarterly total since Q2 2021. Otay Mesa is dominating the market for large lease transactions, as demonstrated in the table of large Q1 transactions. There is so much new construction there that tenants with large space requirements have the best leverage and most options when choosing Otay Mesa for their facility search. In contrast to the bump in leasing activity, sales volume sank to a two-year quarterly low in terms of both dollar and square-foot volume. With rental rate growth stalling, and interest rates remaining relatively high, demand for industrial investment sales has waned. The lack of demand for industrial property sales has started to pull sales prices lower. The median price per square foot in Q1 was $271.35, which was the second lowest quarterly figure in two years, only surpassing Q4 2024's figure (by less than $1). There is some room for this pullback considering the median price per square foot has increased more than 40% in the past five years.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

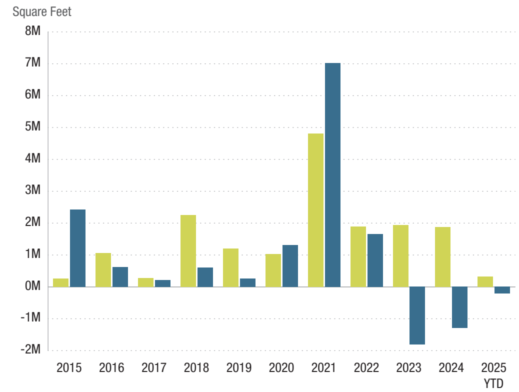
	Change Over Last Quarter		Q1 2025	Q4 2024	Q1 2024	% Change Over Last Year
Vacancy Rate	▲	UP	6.88%	6.56%	5.38%	27.91%
Availability Rate	▬	FLAT	8.97%	9.06%	7.61%	17.93%
Average Asking Lease Rate	▼	DOWN	$1.44	$1.47	$1.50	(4.00%)
Sale & Lease Transactions	▬	FLAT	2,749,293	2,782,770	2,815,156	(2.34%)
Gross Absorption	▲	UP	1,848,321	1,463,948	1,020,562	81.11%
Net Absorption	▼	NEGATIVE	(210,779)	(266,289)	(647,742)	N/A

ABSORPTION. There were 210,779 SF of negative net absorption in Q1, marking the ninth consecutive quarter of negative net absorption. The last time the San Diego market recorded two consecutive years of negative net absorption was 2008-2009. The dramatic increase in rental rates in recent years has pushed some tenants to make do with less space than they would prefer. Most areas of the county have relatively low vacancy levels. With the low levels of new construction outside of Otay Mesa, the decrease in occupied space in certain areas has given tenants in the market more options than they have had in years.

CONSTRUCTION. 315,298 SF of new industrial projects were delivered in Q1 2025, and 1.3 MSF was under construction at the close of the year. The vast majority of the recent construction has been speculative, with minimal pre-leasing. Of the total space completed since the start of 2024, 59% remains available, while 53% of the area delivered in 2023 is still available. As the gateway to international trade, and one of the few areas in San Diego County with a significant amount of developable land, Otay Mesa has stood above the rest in recent construction statistics. Otay Mesa comprises 77% of the 11.9 MSF that has been completed since 2020, and 91% of the 1.4 MSF under construction at the end of Q1 2025. The largest building under construction at the end of 2024 was a 1.1 MSF Amazon fulfillment center in Otay Mesa.

EMPLOYMENT. The unemployment rate in San Diego County was 4.4% in February 2025, down from a revised 4.5% in January 2025, and above the year-ago estimate of 4.3%. This compares with an unadjusted unemployment rate of 5.5% for California and 4.5% for the nation during the same period. Over the 12-month period between February 2024 and February 2025, San Diego County employment increased by 9,900 jobs, an increase of 0.6%. With the normal delay in reporting from the California EDD, employment figures from March were unavailable at the time of publishing this report. For the nation as a whole, 228,000 jobs were added in March, while the seasonally adjusted U.S. unemployment rate increased from 4.1% to 4.2%.

NEW DELIVERIES & NET ABSORPTION



Forecast

Supply augmented with new deliveries, and demand tempered by macroeconomic uncertainty, have been moving in opposite directions for two years. This has led to an increase in vacancy and a pullback in new lease and sale pricing. The increase in leasing activity in Q1 is not likely to gain momentum in the coming months with the threat of a potential trade war hanging over the U.S. economy. The on-again, off-again tariffs will lead to many tenants being spooked into a wait-and-see approach in the coming months.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
237 Via Vera Cruz	San Marcos	80,257	$16,200,000	2055 Meridian Park Blvd., LLC	JLL Income Property Trust
180–230 Roymar Rd. & 3310 Via de la Valle	Oceanside	57,000	$15,300,000	Ocean Park Ventures	Focus Real Estate Services, LLC
494–524 W. Calle Primera	South San Diego	69,530	$15,000,000	Partners Capital, Inc.	Border Business Center, LLC
1437–1463 Fayette St.	El Cajon	35,419	$9,800,000	Skywater-El Cajon, LLC	Jack Goldberg
960–974 Rancheros Dr.	San Marcos	48,692	$8,000,000	950 Rancheros, LLC	Malcolm Carter Enterprises

Leases

* Voit Real Estate Services Deal

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
5959 Santa Fe St.	Morena/Rose Canyon	131,299	Jan 2025	Anheuser-Busch (Renewal)	LBA Realty
2760 Progress St.	Vista	123,270	Jan 2025	Undisclosed	ARES Management
9350 Airway Rd.	Otay Mesa	119,044	Jan 2025	Brokerage & Logistic Solutions*	Badiee Development
7498 Colchester Ct.	Otay Mesa	102,099	Jan 2025	Foxx Development	Hines
1395 Aspen Way	Vista	81,928	Feb 2025	Lithium Energy Corp	The Hewson Company

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q1 2025	Square Feet Available	Availability Rate Q1 2025	Average Asking Lease Rate	Net Absorption Q1 2025	Net Absorption 2025	Gross Absorption Q1 2025	Gross Absorption 2025
Central County													
Central City	82	1,745,919	0	0	27,250	1.56%	40,850	2.34%	$1.16	0	0	0	0
East City	58	603,460	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Southeast City	370	4,281,902	0	0	262,545	6.13%	273,909	6.40%	$1.40	20,124	20,124	63,195	63,195
Kearny Mesa	419	9,994,418	0	0	481,332	4.82%	518,538	5.19%	$1.90	(16,021)	(16,021)	91,462	91,462
Mission Gorge	106	1,790,982	0	0	28,086	1.57%	129,564	7.23%	$1.95	7,976	7,976	10,286	10,286
Rose Canyon / Morena	131	2,022,891	0	0	98,627	4.88%	182,787	9.04%	$1.54	(2,560)	(2,560)	9,912	9,912
Sports Arena / Airport	133	1,523,114	0	0	41,360	2.72%	128,984	8.47%	$1.71	0	0	0	0
Miramar	584	13,396,173	0	85,000	1,019,933	7.61%	1,481,261	11.06%	$1.70	(139,508)	(139,508)	178,307	178,307
Sorrento Mesa	68	3,189,550	0	0	165,331	5.18%	229,990	7.21%	$1.81	(1,850)	(1,850)	30,103	30,103
Sorrento Valley/UTC	41	983,975	0	0	2,400	0.24%	2,400	0.24%	$2.23	(2,400)	(2,400)	0	0
Central County Total	1,992	39,532,384	0	85,000	2,126,864	5.38%	2,988,283	7.56%	$1.71	(134,239)	(134,239)	383,265	383,265
East County													
El Cajon	449	9,581,102	10,300	0	299,018	3.12%	367,265	3.83%	$1.56	(15,843)	(15,843)	42,486	42,486
La Mesa / Spring Valley	306	2,798,611	0	0	72,722	2.60%	97,885	3.50%	$1.83	11,071	11,071	23,710	23,710
Santee / Lakeside	287	3,902,749	0	188,492	34,267	0.88%	139,653	3.58%	$1.55	6,372	6,372	21,054	21,054
Rural East County	87	988,729	0	0	121,240	12.26%	115,130	11.64%	$1.06	(21,240)	(21,240)	0	0
East County Total	1,129	17,271,191	10,300	188,492	527,247	3.05%	719,933	4.17%	$1.47	(19,640)	(19,640)	87,250	87,250
North County													
Escondido	641	7,778,482	88,552	0	326,507	4.20%	533,361	6.78%	$1.54	(154,609)	(154,609)	26,229	26,229
Oceanside	398	9,132,481	0	520,446	381,546	4.18%	568,368	6.22%	$1.32	39,936	39,936	150,416	150,416
San Marcos	474	8,132,559	0	223,175	747,526	9.19%	705,141	8.67%	$1.41	(94,626)	(94,626)	110,286	110,286
Vista	524	13,557,366	22,480	123,705	1,047,475	7.73%	1,641,686	12.09%	$1.36	11,564	11,564	180,195	180,195
Carlsbad	225	8,715,713	0	0	519,946	5.97%	939,492	10.78%	$1.47	(37,654)	(37,654)	38,752	38,752
North Beach Cities	36	217,886	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Rural North County	124	1,181,231	0	0	77,625	6.57%	114,457	9.69%	$0.63	(38,420)	(38,420)	28,000	28,000
North County Total	2,422	48,715,718	111,032	867,326	3,100,625	6.36%	4,502,505	9.22%	$1.37	(273,809)	(273,809)	533,878	533,878
I-15 Corridor													
Poway	188	7,663,207	0	0	247,457	3.23%	323,862	4.23%	$1.58	(7,749)	(7,749)	598	598
Rancho Bernardo	38	2,876,572	0	0	53,790	1.87%	106,676	3.71%	$1.76	34,537	34,537	34,537	34,537
Scripps Ranch	26	698,647	0	86,000	0	0.00%	8,375	1.20%	$1.32	10,565	10,565	10,565	10,565
I-15 Corridor Total	252	11,238,426	0	86,000	301,247	2.68%	438,913	3.91%	$1.60	37,353	37,353	45,700	45,700
South County													
Chula Vista	327	9,011,511	0	178,156	1,079,315	11.98%	1,039,369	11.53%	$1.46	(19,587)	(19,587)	38,820	38,820
National City	254	3,784,313	0	93,720	186,745	4.93%	209,065	5.52%	$1.74	(63,126)	(63,126)	25,067	25,067
Otay Mesa	391	25,288,816	1,244,413	4,362,413	3,409,172	13.48%	4,127,161	15.55%	$1.16	266,570	266,570	734,101	734,101
South San Diego	62	1,329,725	0	0	8,844	0.67%	112,947	8.49%	$1.40	(4,301)	(4,301)	240	240
South County Total	1,034	39,414,365	1,244,413	4,634,289	4,684,076	11.88%	5,488,542	13.50%	$1.28	179,556	179,556	798,228	798,228
San Diego County Total	**6,829**	**156,172,084**	**1,365,745**	**5,861,107**	**10,740,059**	**6.88%**	**14,138,176**	**8.97%**	**$1.44**	**(210,779)**	**(210,779)**	**1,848,321**	**1,848,321**
0-9,999	3,055	15,587,564	0	0	360,935	2.32%	558,786	3.58%	$1.73	(123,164)	(123,164)	89,658	89,658
10,000-19,999	1,781	25,284,012	10,300	0	817,254	3.23%	1,315,538	5.20%	$1.59	(90,965)	(90,965)	249,516	249,516
20,000-34,999	966	24,849,201	22,480	27,720	1,298,517	5.23%	1,942,173	7.81%	$1.55	(260,675)	(260,675)	222,713	222,713
35,000-49,999	381	15,730,450	43,000	49,538	726,671	4.62%	1,117,706	7.09%	$1.37	1,764	1,764	209,258	209,258
50,000-99,999	391	27,011,820	88,552	760,940	2,221,092	8.22%	3,369,817	12.43%	$1.41	(44,836)	(44,836)	421,803	421,803
100,000 Plus	255	47,709,037	1,201,413	5,022,909	5,315,590	11.14%	5,834,156	11.93%	$1.13	307,097	307,097	655,373	655,373
San Diego County Total	**6,829**	**156,172,084**	**1,365,745**	**5,861,107**	**10,740,059**	**6.88%**	**14,138,176**	**8.97%**	**$1.44**	**(210,779)**	**(210,779)**	**1,848,321**	**1,848,321**

Lease rates are on an industrial-gross basis.

Tax On, Tax Off

As I am sure you know, the San Diego Real Estate market enjoyed a huge bull run for more than a decade and went into overdrive during the post-Covid boom of 2020-2022. That run, however, met with some headwinds in 2023, and again in 2024 as investors and tenants waited on the election results to make any big decisions. After Trump was elected, the overwhelming expectation was that interest rates would begin to come down, defense spending would continue to prop up the San Diego market, and government deregulation in the private sector would spur new business investment. Initially, it appeared a bounce back in tenant and buyer activity in the industrial market would come to fruition. Leasing activity was up, and investor sentiment was on the rise. And then came the tariffs.

Trump came into office with a mandate for change and immediately took aggressive action, invoking tariffs against several of our most active trading partners, most notably for San Diego with our Mexican neighbors. Unfortunately for the industrial real estate market, most countries did not respond with concessions, but rather by invoking their own counter-tariffs. This threw the industrial market into flux, especially in the border area of Otay Mesa, but also across San Diego County and Southern California as a whole. Some industries and markets in San Diego would benefit from tariffs, while others would certainly be drastically hindered. Full tariffs or half tariffs or no tariffs, it is largely the uncertainty of how this shakes out that is paralyzing decision-makers across the market.

In this environment many companies are unable to make long-term decisions. Manufacturing operations need to decide if they should repatriate to San Diego to avoid tariffs, or if it will be business as usual. Not knowing which way the dominoes will fall has stagnated some market activity for now. Deals are still getting done, however, and market sentiment remains positive overall with most owners and investors agreeing that 2025 will be a rebound from 2024. But the sooner the trade war reaches a finite conclusion the better for everybody. Hopefully that conclusion isn't a drastic change one way or the other, as market stability will allow every business to confidently make sound, long-term decisions about the direction of their company.

by Patrick Connors
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Product Type

MFG./DIST.
Manufacturing / Distribution / Warehouse facilities with up to 49.9% office space.

Submarkets

CENTRAL COUNTY
Central City, East City, Southeast City, Kearny Mesa, Mission Gorge, Rose Canyon / Morena, Sports Arena / Airport, Miramar, Sorrento Mesa, Sorrento Valley

EAST COUNTY
El Cajon, La Mesa / Spring Valley, Santee / Lakeside, Rural East County

NORTH COUNTY
Escondido, Oceanside, San Marcos, Vista, Carlsbad, North Beach Cities, Rural North County

I-15 CORRIDOR
Poway, Rancho Bernardo, Scripps Ranch

SOUTH BAY
Chula Vista, National City, Otay Mesa, South San Diego

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FIRST QUARTER 2025 MARKET REPORT
SAN DIEGO FLEX / R&D

Voit REAL ESTATE SERVICES

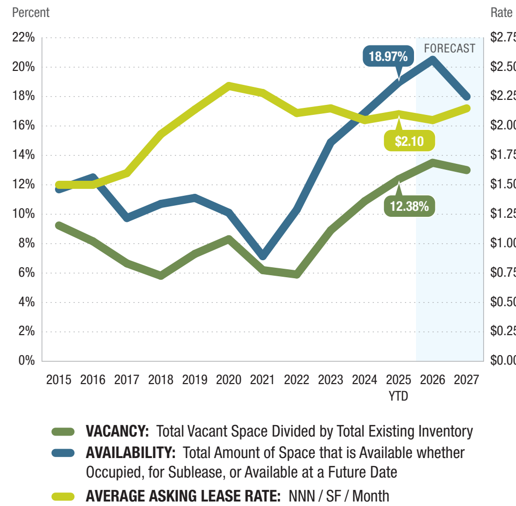
OVERVIEW. The Flex / R&D market saw over half a million square feet of negative net absorption in Q1, surpassing the 2024 decrease of occupied space in the first quarter of 2025. Vacancy continued trending higher, and sublease availability continued to surge into the market. Sales and leasing volume in the San Diego Flex / R&D remained subdued at the start of 2025.

VACANCY & AVAILABILITY. Direct / sublease space (unoccupied) finished Q1 2025 at 12.4%, a substantial increase of 30% from Q1 2024's vacancy rate of 9.5%. Despite the increase of the vacancy rate seen in the last two years, this is still well below the vacancy rate from the trough reached during the Great Recession when the countywide vacancy rate finished 2011 above 16%. The availability rate saw an 18% increase from the prior year. Direct / sublease space being marketed was 19% at the end of Q1 2025. Vacancy measures the amount of space which is unoccupied regardless of whether it is being marketed for sale or lease. Availability measures the amount of space which is on the market, regardless of whether it is occupied. Much of the increase in available space is coming from sublease space coming onto the market. Sublease availability continues to increase, coming in at 5.2% at the end of Q1 2025, after bottoming out at 0.8% in Q1 2022.

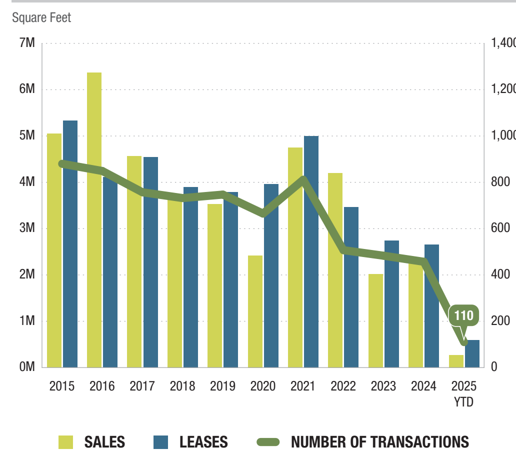
LEASE RATES. The average asking triple net lease rate per square foot per month in San Diego County was $2.10 at the end of Q1 2024, which is a decrease of 8.3% from Q1 2024's rate of $2.29. The substantial increase in availability and competition from sublease offerings has placed downward pressure on landlords' asking rates. Despite the recent dip, the average asking lease rate has been on a long-term trend of increases. Over the past ten years the countywide asking rental rate has increased 40%, as more space gets built out with expensive biotech laboratories. The Flex / R&D market is relatively small in comparison to the office or industrial markets, and additionally the difference between the rental rates for biotech properties and other Flex / R&D properties is vast. This causes the overall average market statistics to fluctuate periodically.

TRANSACTION ACTIVITY. 592,177 SF of Flex / R&D space was leased across 103 transactions in Q1. This reflects a continued trend of moderate leasing activity compared with previous years. Since the beginning of 2023, the leasing market has averaged 644,133 SF and 101 transactions per quarter, highlighting a noticeable slowdown. These figures are significantly below the quarterly average recorded during 2021 and 2022, which saw an average of 1,056,627 SF leased and 133 transactions per quarter. On the sales side, the Flex / R&D market has continued to struggle. Sales volumes for 2023 and 2024 were each the lowest annual totals since 2014. The declining market fundamentals have created opportunities for well capitalized buyers to dislodge trophy properties which rarely change hands. Q1 sales were headlined by BioMed Realty's $255 million acquisition of Pfizer's campus, and Breakthrough Properties' $159 million purchase of the MUSE project, both located in prestigious Torrey Pines. But, beyond the two largest sales in Q1, there were less than half a dozen sales of Flex / R&D properties. This decline reflects broader economic uncertainties, changes in investor sentiment, or reduced demand for ownership in the current market climate. The persistence of these subdued transaction figures underscores the challenges facing the Flex / R&D sector, both in terms of leasing and investment activity.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

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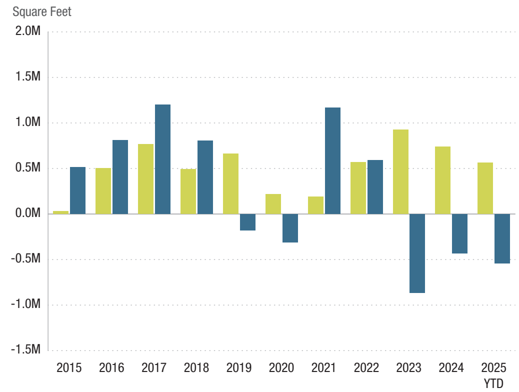
Vacancy Rate	▲	UP	12.38%	10.89%	9.51%	30.22%
Availability Rate	▲	UP	18.97%	16.89%	16.03%	18.30%
Average Asking Lease Rate	▲	UP	$2.10	$2.05	$2.29	(8.30%)
Sale & Lease Transactions	▼	DOWN	866,398	1,441,891	1,058,864	(18.18%)
Gross Absorption	▼	DOWN	588,552	1,010,357	621,236	(5.26%)
Net Absorption	▼	NEGATIVE	(542,683)	80,652	(326,938)	N/A

ABSORPTION. The San Diego Flex / R&D market recorded 542,683 SF of negative net absorption in Q1, adding to two consecutive years of negative net absorption. Since the start of 2023 the San Diego market has seen the total footprint of companies occupying Flex real estate decrease by 1.8 MSF. The biotech segment of the Flex / R&D market has a very boom / bust nature dominated by a high percentage of large tenants, and this can move the market statistics rapidly in one direction or the other.

CONSTRUCTION. At the end of Q1 2025 there were 1.5 MSF under construction or lab conversion, with 50% of this space still available for lease. The lack of available building sites, specifically in the primary biotech submarkets, has led to a steady stream of property conversions and repositioning over the years. All of the properties under construction at the end of Q1 were in the submarkets surrounding UCSD, apart from two Carlsbad developments. The Carlsbad projects consisted of Ionis Pharmaceuticals' 165,000 square foot build-to-suit expansion, along with Techbilt's three-building, 67,714 square foot speculative project, both of which are located on Whiptail Loop. The conversions from office or industrial to lab space do not show up in the new construction totals. The dividing line between office properties and flex properties is becoming less distinct, especially in Sorrento Mesa and Sorrento Valley which have been the epicenter of recent lab conversions. Additionally, many ground-up developments are positioned towards both office and lab users to fill their new buildings.

EMPLOYMENT. The unemployment rate in San Diego County was 4.4% in February 2025, down from a revised 4.5% in January 2025, and above the year-ago estimate of 4.3%. This compares with an unadjusted unemployment rate of 5.5% for California and 4.5% for the nation during the same period. Over the 12-month period between February 2024 and February 2025, San Diego County employment increased by 9,900 jobs, an increase of 0.6%. With the normal delay in reporting from the California EDD, employment figures from March were unavailable at the time of publishing this report. For the nation as a whole, 228,000 jobs were added in March, while the seasonally adjusted U.S. unemployment rate increased from 4.1% to 4.2%.

NEW DELIVERIES & NET ABSORPTION



NEW DELIVERIES: New Construction Delivered to the Market
NET ABSORPTION: Changes in the Amount of Occupied Space from One Quarter to the Next

Forecast

It is evident that the current wave of new property supply in the biotech sector, which began circa 2022, has long eclipsed demand which peaked in that same year. The federal government's National Institutes of Health funds many research projects in Southern California and partners with local research institutions, thereby acting as lifeblood for many of the R&D companies in San Diego County. The federal government made major NIH funding cuts in 1Q, and this will lead to a further decrease in tenant demand from this sector in the coming quarters.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
10555–10777 Science Center Dr.	Torrey Pines	630,998	$255,000,000	BioMed Realty	Pfizer
3030–3050 Science Park Rd.	Torrey Pines	186,874	$159,000,000	Breakthrough Properties, LLC	Diversified Healthcare Trust
6130 Nancy Ridge Dr.	Sorrento Mesa	18,756	$7,425,500	Heritage Global Partners	Dannis Trust

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
10945 Alexandria Way	Torrey Pines	122,302	Feb 2025	Altos	Alexandria RE Equities
1812 Aston Ave.	Carlsbad	64,500	Jan 2025	Carbon By Design	RAF Pacifica Group
4930 Directors Pl.	Sorrento Mesa	32,512	Jan 2025	Kura Oncology	Healthpeak Properties
4141 Ruffin Rd.	Kearny Mesa	31,622	Feb 2025	Lucid Motors	Duwright Holdings Ruffin, LLC
2330 Faraday Ave.	Carlsbad	17,451	Feb 2025	Undisclosed	RAF Pacifica Group

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	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q1 2025	Square Feet Available	Availability Rate Q1 2025	Average Asking Lease Rate	Net Absorption Q1 2025	Net Absorption 2025	Gross Absorption Q1 2025	Gross Absorption 2025
Central													
Central City	14	181,681	0	0	38,564	21.23%	40,404	22.24%	$1.78	0	0	4,500	4,500
East City	3	373,020	0	0	0	0.00%	0	0.00%	-	0	0	0	0
Southeast City	24	254,738	0	0	2,700	1.06%	0	0.00%	-	(2,700)	(2,700)	0	0
Kearny Mesa	200	5,569,044	0	5,400	443,291	7.96%	442,798	7.95%	$1.74	(35,584)	(35,584)	16,158	16,158
Mission Gorge	27	277,895	0	0	11,750	4.23%	14,510	5.22%	$2.04	3,957	3,957	3,957	3,957
Rose Canyon/Morena	38	592,709	0	0	58,693	9.90%	76,311	12.87%	$1.77	(8,284)	(8,284)	6,780	6,780
Sports Arena/Airport	33	427,078	0	0	64,939	15.21%	64,939	15.21%	-	7,000	7,000	7,000	7,000
Miramar	216	4,843,861	0	0	480,562	9.92%	771,006	15.92%	$2.21	(93,807)	(93,807)	47,839	47,839
Sorrento Mesa	181	8,995,474	650,268	314,623	2,508,147	27.88%	3,419,221	35.45%	$3.66	(268,645)	(268,645)	142,881	142,881
Sorrento Valley	115	2,830,051	0	0	709,286	25.06%	785,247	27.75%	$2.94	618	618	73,997	73,997
Torrey Pines/UTC	85	7,692,812	594,968	1,200,000	1,067,885	13.88%	1,949,167	23.52%	$2.00	(235,166)	(235,166)	0	0
Central County Total	936	32,038,363	1,245,236	1,520,023	5,385,817	16.81%	7,563,603	22.72%	$2.59	(632,611)	(632,611)	303,112	303,112
East County													
El Cajon	80	943,176	0	0	6,362	0.67%	18,875	2.00%	$1.49	(4,750)	(4,750)	0	0
La Mesa/Spring Valley	44	323,073	0	60,000	11,535	3.57%	11,535	3.57%	$1.72	674	674	14,009	14,009
Santee/Lakeside	56	588,053	0	0	3,598	0.61%	3,598	0.61%	$1.86	(2,386)	(2,386)	0	0
Rural East County	22	95,520	0	0	1,325	1.39%	1,325	1.39%	$1.50	(1,325)	(1,325)	0	0
East County Total	202	1,949,822	0	60,000	22,820	1.17%	35,333	1.81%	$1.65	(7,787)	(7,787)	14,009	14,009
North County													
Escondido	83	781,427	0	0	29,578	3.79%	45,686	5.85%	$1.11	(5,117)	(5,117)	1,383	1,383
Oceanside	32	957,992	0	0	7,232	0.75%	7,232	0.75%	$1.44	7,788	7,788	9,600	9,600
San Marcos	57	1,085,929	0	0	62,399	5.75%	108,550	10.00%	$1.43	2,664	2,664	6,075	6,075
Vista	63	1,325,467	0	0	56,497	4.26%	131,726	9.94%	$1.45	(29,588)	(29,588)	5,205	5,205
Carlsbad	262	7,667,950	232,721	0	757,579	9.88%	1,503,971	19.04%	$1.86	(1,639)	(1,639)	38,973	38,973
North Beach Cities	17	144,924	0	0	0	0.00%	0	0.00%	$3.06	880	880	880	880
Rural North County	22	156,056	0	0	9,795	6.28%	10,595	6.79%	$1.80	863	863	1,568	1,568
North County Total	536	12,119,745	232,721	0	923,080	7.62%	1,807,760	14.63%	$1.67	(24,149)	(24,149)	63,684	63,684
I-15 Corridor													
Poway	62	2,201,085	0	0	34,361	1.56%	89,700	4.08%	$1.55	3,942	3,942	20,614	20,614
Rancho Bernardo	100	4,778,145	0	0	358,632	7.51%	1,122,187	23.49%	$1.81	152,000	152,000	179,343	179,343
Scripps Ranch	32	1,061,014	0	100,000	193,304	18.22%	193,304	18.22%	$1.92	(23,792)	(23,792)	0	0
I-15 Corridor Total	194	8,040,244	0	100,000	586,297	7.29%	1,405,191	17.48%	$1.78	132,150	132,150	199,957	199,957
South County													
Chula Vista	81	1,467,727	0	0	32,135	2.19%	100,156	6.82%	$1.66	(3,766)	(3,766)	7,790	7,790
National City	23	300,227	0	0	5,157	1.72%	8,695	2.90%	$1.87	(3,375)	(3,375)	0	0
Otay Mesa	11	214,578	0	0	3,145	1.47%	22,687	10.57%	$1.40	(3,145)	(3,145)	0	0
South San Diego	5	86,876	0	0	0	0.00%	0	0.00%	-	0	0	0	0
South County Total	120	2,069,408	0	0	40,437	1.95%	131,538	6.36%	$1.60	(10,286)	(10,286)	7,790	7,790
San Diego County Total	**1,988**	**56,217,582**	**1,477,957**	**1,680,023**	**6,958,451**	**12.38%**	**10,943,425**	**18.97%**	**$2.10**	**(542,683)**	**(542,683)**	**588,552**	**588,552**

Lease rates are on a triple-net basis.

SD Q1 25

FIRST QUARTER 2025 MARKET REPORT

SAN DIEGO FLEX / R&D

Voit
REAL ESTATE SERVICES

Tax On, Tax Off

As I am sure you know, the San Diego Real Estate market enjoyed a huge bull run for more than a decade and went into overdrive during the post-Covid boom of 2020-2022. That run, however, met with some headwinds in 2023, and again in 2024 as investors and tenants waited on the election results to make any big decisions. After Trump was elected, the overwhelming expectation was that interest rates would begin to come down, defense spending would continue to prop up the San Diego market, and government deregulation in the private sector would spur new business investment. Initially, it appeared a bounce back in tenant and buyer activity in the industrial market would come to fruition. Leasing activity was up, and investor sentiment was on the rise. And then came the tariffs.

Trump came into office with a mandate for change and immediately took aggressive action, invoking tariffs against several of our most active trading partners, most notably for San Diego with our Mexican neighbors. Unfortunately for the industrial real estate market, most countries did not respond with concessions, but rather by invoking their own counter-tariffs. This threw the industrial market into flux, especially in the border area of Otay Mesa, but also across San Diego County and Southern California as a whole. Some industries and markets in San Diego would benefit from tariffs, while others would certainly be drastically hindered. Full tariffs or half tariffs or no tariffs, it is largely the uncertainty of how this shakes out that is paralyzing decision-makers across the market.

In this environment many companies are unable to make long-term decisions. Manufacturing operations need to decide if they should repatriate to San Diego to avoid tariffs, or if it will be business as usual. Not knowing which way the dominoes will fall has stagnated some market activity for now. Deals are still getting done, however, and market sentiment remains positive overall with most owners and investors agreeing that 2025 will be a rebound from 2024. But the sooner the trade war reaches a finite conclusion the better for everybody. Hopefully that conclusion isn't a drastic change one way or the other, as market stability will allow every business to confidently make sound, long-term decisions about the direction of their company.

by Patrick Connors
SENIOR VICE PRESIDENT / PARTNER, SAN DIEGO
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Product Type

MFG./DIST.: Flex / Research and Development (R&D) buildings can be one story, one story with a mezzanine, and two story built-out structures with a high ratio of window wall to floor area with lower ceilings. They generally have over 50% built-out office space or laboratory use, with the remaining space being utilized as light manufacturing or warehousing. In addition, the parking ratio must be at least 3 spaces or greater per 1,000 square feet.

Submarkets

CENTRAL COUNTY
Central City, East City, Southeast City, Kearny Mesa, Mission Gorge, Rose Canyon / Morena, Sports Arena / Airport, Miramar, Sorrento Mesa, Sorrento Valley, Torrey Pines / UTC

EAST COUNTY
El Cajon, La Mesa / Spring Valley, Santee / Lakeside, Rural East County

NORTH COUNTY
Escondido, Oceanside, San Marcos, Vista, Carlsbad, North Beach Cities, Rural North County

I-15 CORRIDOR
Poway, Rancho Bernardo, Scripps Ranch

SOUTH BAY
Chula Vista, National City, Otay Mesa, South San Diego

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FIRST QUARTER 2025 MARKET REPORT

SAN DIEGO OFFICE

Voit
REAL ESTATE SERVICES

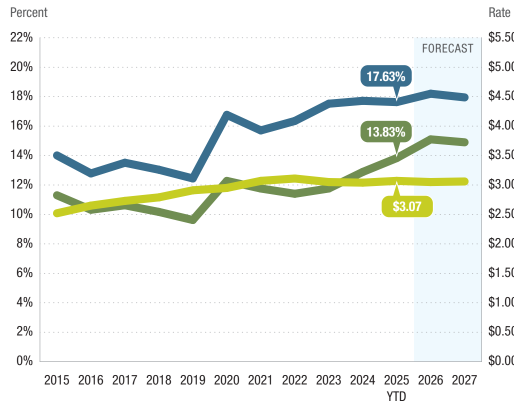
OVERVIEW. There were encouraging signs in Q1 with some positive net absorption, and no increase in the availability rate. Overall, market activity remains slow. The level of construction remains elevated, especially relative to the soft market.

VACANCY & AVAILABILITY. Direct/sublease space (unoccupied) finished Q1 at 13.83%, a sizable 160-basis point increase from the level of a year ago. Available office space being marketed (regardless of occupancy status) was 17.63% of the county's inventory at the end of Q1. The availability rate has remained relatively stable over the past four quarters. This spike in the vacancy while availability remains stable can be contributed to office buildings under construction coming to completion. Available space is counted as available but not vacant during construction, and after delivery the available space gets counted as vacant. Among the county's major submarkets (minimum of 5 MSF of inventory), Sorrento Mesa had the lowest availability, at 11.3%. Meanwhile, the availability rate in Downtown is 36.5% and more than a third of all office space in Downtown is vacant. Sublease availability across the county finished Q1 at 2.1%, decreasing for the second consecutive quarter.

LEASE RATES. The average asking full-service-gross (FSG) lease rate per square foot per month in San Diego County was $3.07 at the end of Q1, a three-cent, or one percent, increase from the prior quarter's rate. The average asking rate for San Diego office is being bolstered by the substantial construction pipeline currently underway. A large amount of new office space coming to the market pushes the average rental rate higher. However, effective rental rates are down considerably from pre-Covid levels, with landlords regularly offering significant concessions to woo prospective tenants, such as first-year promotional teaser rates or free rent. The average effective rental rate is clearly seeing the impact of decreased leasing activity, increased availability, and competition from sublease office space. Landlords with less-desirable office buildings, or in lower-demand submarkets, are realizing they need to be more aggressive in the way they position their vacancies. But the balance of leverage varies across the county.

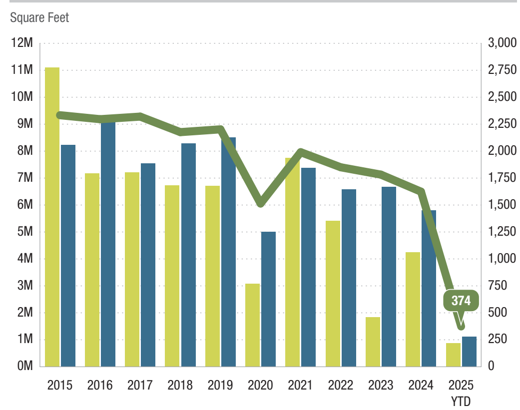
TRANSACTION ACTIVITY. The number of office leases recorded in Q1 was 359. This was below the quarterly average of 412 transactions recorded between 2023 and 2024. The leasing market remains tepid as there are more office tenants downsizing than expanding. Office sales volume remained constrained in Q1, with 880,736 SF of office buildings trading hands. Since the start of 2023 there have been an average of 774,000 SF of office sales in the county, which is low even when compared to earlier years in the post-Covid era. During 2021 and 2022 there was an average of 1.6 MSF of office selling per quarter. Notably, there was not a single Class A office among the largest sales in Q1. Three of the largest office sales in the quarter were acquired by healthcare providers and a school district. This demonstrates that under current market conditions, economic sectors which are less susceptible to down cycles in the broader economy take a greater role.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES



VACANCY: Total Vacant Space Divided by Total Existing Inventory
AVAILABILITY: Total Amount of Space that is Available whether Occupied, for Sublease, or Available at a Future Date
AVERAGE ASKING LEASE RATE: FSG / SF / Month

TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



SALES LEASES NUMBER OF TRANSACTIONS

Market Statistics

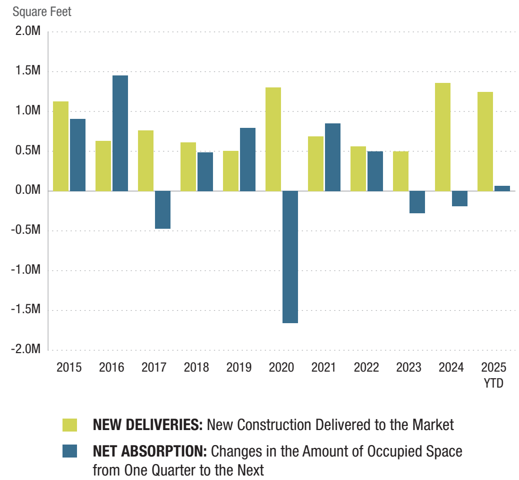
	Change Over Last Quarter	Q1 2025	Q4 2024	Q1 2024	% Change Over Last Year
Vacancy Rate	UP	13.83%	12.89%	12.23%	13.03%
Availability Rate	FLAT	17.63%	17.72%	17.56%	0.39%
Average Asking Lease Rate	UP	$3.07	$3.04	$3.04	0.99%
Sale & Lease Transactions	DOWN	1,990,103	3,308,262	1,884,076	5.63%
Gross Absorption	UP	1,686,582	1,456,791	1,286,584	31.09%
Net Absorption	POSITIVE	66,142	(82,931)	(498,780)	N/A

ABSORPTION. There were 66,142 SF of positive net absorption in Q1. Ironically, the submarket with the most positive net absorption in Q1 was Downtown, which has been the poster child for softness in the local office market. The largest portion of the positive net absorption came from 1011 W. Union Street, with SANDAG accounting for the lion's share. While Downtown offices are facing significant vacancy pressure, this is a demonstration that new construction has been the primary recipient of positive net absorption within the market. Although Downtown had a positive net absorption tally in Q1, for a change, five of the seven other largest office submarkets recorded negative net absorption.

CONSTRUCTION. There were 1.2 MSF of new office deliveries in Q1, all from the RaDD project in downtown San Diego. The vaunted bayfront project has leased at least half of the 200,000 SF of retail space but has yet to announce any office or lab tenant signings. A development of this magnitude in such an exceptional location will certainly attract tenants over time. The question remains whether the project's landlord, IQHQ, will land the anchor tenant it needs to energize and accelerate the lease-up of the project. A good candidate would have been Bristol Myers Squibb, which will occupy the 427,000 SF office / R&D building under construction at Campus Point in UTC. There were 1.8 MSF of office space under construction in Q1. Other notable projects include Aperture Del Mar, a 3-building 443,000 SF development on Highway 56 which has been pre-leased by Neurocrine Biosciences. The only office under construction in Q1 without pre-leasing activity remains Stockbridge's redevelopment of Horton Plaza. The Downtown San Diego office market is languishing, and the RaDD and Horton projects are prime examples of that. Even the 234,000 SF office at 2100 Kettner and the 92,000 SF office at 450 B Street, which both completed construction in 2021, still retain well over half of their rentable area available for lease.

EMPLOYMENT. The unemployment rate in San Diego County was 4.4% in February 2025, down from a revised 4.5% in January 2025, and above the year-ago estimate of 4.3%. This compares with an unadjusted unemployment rate of 5.5% for California and 4.5% for the nation during the same period. Over the 12-month period between February 2024 and February 2025, San Diego County employment increased by 9,900 jobs, an increase of 0.6%. With the normal delay in reporting from the California EDD, employment figures from March were unavailable at the time of publishing this report. For the nation as a whole, 228,000 jobs were added in March, while the seasonally adjusted U.S. unemployment rate increased from 4.1% to 4.2%.

NEW DELIVERIES & NET ABSORPTION



Forecast

Office loan distress among U.S. Commercial Mortgage-Backed Securities remains near an all-time high. This will place downward pressure on office sale pricing. Offices that sell at a discount will give new owners a lower basis, and the ability to move rental rates lower. Expect continued pressure on rental rates, especially among larger blocks of space, with elevated vacancy levels not expected to significantly improve over the coming months. The market remains heavily influenced by the tenant flight to quality, and landlords with well located, highly amenitized properties will continue to outperform.

Significant Transactions

Sales

* Voit Real Estate Services Deal

Property Address	Submarket	Class	Square Feet	Sale Price	Buyer	Seller
875 El Cajon Blvd. & 1830-1840 West Dr.	El Cajon & Vista	B/C	65,729	$39,729,500	San Ysidro Health	Turner Impact Capital, LP
2110 S. Coast Hwy 101, Et Al	Oceanside	C	26,998	$19,200,000	Asana Partners	Fabric Investments
1350 Fashion Valley Rd.	Mission Valley	B	44,321	$17,500,000	San Diego Unified School District	Clark Trust
7065 Broadway	Lemon Grove	B	40,000	$15,000,000	Family Health Centers of SD	Morelli Brothers Enterprises, LLC*
9466 Black Mountain Rd.	Miramar	B	31,575	$6,600,000	Hindu Mandir Society of San Diego	BMR 9466, LLC

Leases

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
600 B St.	Downtown	A	44,544	Jan 2025	NewSchool of Architecture and Design	Rockwood Capital
4840 Eastgate Mall	UTC	B	41,609	Feb 2025	Undisclosed	The Irvine Company
17190 Bernardo Center Dr.	Rancho Bernardo	B	24,844	Feb 2025	Undisclosed	MD-Dannin, LLC
11512 El Camino Real	Del Mar Heights	A	20,518	Mar 2025	LifePro	American Assets Trust
8989 Rio San Diego	Mission Valley	B	20,088	Mar 2025	Considine & Considine	Silver Creek Holdings, LLC

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q1 2025	Square Feet Available	Availability Rate Q1 2025	Average Asking Lease Rate	Net Absorption Q1 2025	Net Absorption 2025	Gross Absorption Q1 2025	Gross Absorption 2025
Downtown													
Downtown	131	15,786,890	767,871	550,000	5,608,440	35.53%	6,039,211	36.48%	$2.61	236,905	236,905	438,446	438,446
Downtown Total	131	15,786,890	767,871	550,000	5,608,440	35.53%	6,039,211	36.48%	$2.61	236,905	236,905	438,446	438,446
Central													
City Heights/University	32	1,245,123	0	0	58,630	4.71%	71,118	5.71%	$2.61	1,900	1,900	4,272	4,272
Coronado	4	84,540	0	0	0	0.00%	0	0.00%	-	600	600	600	600
Kearny Mesa	240	11,372,742	0	354,087	1,048,578	9.22%	1,389,095	12.21%	$3.06	(6,476)	(6,476)	131,616	131,616
Mission Gorge	19	578,819	0	0	24,193	4.18%	24,193	4.18%	$1.97	(7,939)	(7,939)	5,222	5,222
Mission Valley	129	7,481,776	0	1,130,925	1,276,948	17.07%	1,445,595	19.32%	$3.00	(63,035)	(63,035)	121,254	121,254
Old Town/Point Loma	73	2,284,808	0	0	211,765	9.27%	246,227	10.78%	$2.76	(2,380)	(2,380)	6,719	6,719
Park East	16	238,344	0	0	2,926	1.23%	6,638	2.79%	$2.03	(2,926)	(2,926)	0	0
Rose Canyon/Morena	50	1,199,174	0	0	96,135	8.02%	114,616	9.56%	$2.45	(8,836)	(8,836)	14,017	14,017
Uptown/Hillcrest	74	2,129,398	0	0	129,548	6.08%	167,700	7.88%	$2.60	(12,833)	(12,833)	16,039	16,039
Central Total	637	26,614,724	0	1,485,012	2,848,723	10.70%	3,465,182	13.02%	$2.94	(101,925)	(101,925)	299,739	299,739
I-15 Corridor													
Escondido	72	1,733,682	0	36,614	218,338	12.59%	366,408	21.13%	$2.29	(16,154)	(16,154)	12,658	12,658
Poway	30	1,202,278	0	0	91,179	7.58%	111,130	9.24%	$1.89	(28,977)	(28,977)	13,465	13,465
Rancho Bernardo	101	6,519,262	0	165,747	518,653	7.96%	891,551	13.68%	$3.31	43,221	43,221	120,884	120,884
Scripps Ranch	48	2,691,122	0	356,000	574,671	21.35%	518,926	19.28%	$3.10	8,987	8,987	46,645	46,645
I-15 Corridor Total	251	12,146,344	0	558,361	1,402,841	11.55%	1,888,015	15.54%	$3.03	7,077	7,077	193,652	193,652
North County Coastal													
Carlsbad	163	6,864,746	0	50,000	1,052,146	15.33%	1,494,641	21.77%	$2.62	(6,094)	(6,094)	107,881	107,881
Del Mar Heights/Carmel Valley	85	6,223,416	442,534	1,429,682	715,683	11.50%	1,230,113	18.45%	$4.68	(26,314)	(26,314)	117,829	117,829
North Beach Cities	113	2,778,025	0	25,456	249,352	8.98%	348,081	12.53%	$4.41	27,198	27,198	47,641	47,641
North County Total	361	15,866,187	442,534	1,505,138	2,017,181	12.71%	3,072,835	18.84%	$3.34	(5,210)	(5,210)	273,351	273,351
North City													
Governor Park	19	769,603	0	0	50,462	6.56%	106,029	13.78%	$3.19	(3,806)	(3,806)	100	100
La Jolla	45	1,374,476	0	0	191,450	13.93%	283,576	20.63%	$3.70	4,362	4,362	22,957	22,957
Miramar	32	1,473,929	0	0	87,193	5.92%	633,697	42.99%	$2.19	(13,640)	(13,640)	12,573	12,573
Sorrento Mesa	104	8,487,593	0	1,460,000	643,531	7.58%	956,323	11.27%	$3.12	(81,574)	(81,574)	45,772	45,772
Sorrento Valley	19	494,528	0	0	130,957	26.48%	83,172	16.82%	$2.38	3,361	3,361	7,211	7,211
Torrey Pines	39	3,079,697	0	154,547	63,112	2.05%	133,509	4.34%	$3.93	(16,981)	(16,981)	992	992
UTC	93	9,413,014	427,000	400,000	1,110,914	11.80%	1,808,380	18.38%	$3.84	8,336	8,336	209,067	209,067
North City Total	351	25,092,840	427,000	2,014,547	2,277,619	9.08%	4,004,686	15.69%	$3.51	(99,942)	(99,942)	298,672	298,672
Southern & Eastern Areas													
Chula Vista	93	2,933,139	137,775	1,790,000	152,432	5.20%	177,040	5.77%	$2.72	(29,900)	(29,900)	11,714	11,714
National City	16	583,906	0	0	40,524	6.94%	49,846	8.54%	$2.69	16,572	16,572	17,922	17,922
South San Diego	16	416,044	0	0	9,482	2.28%	9,482	2.28%	$2.85	41,629	41,629	41,629	41,629
Southeast San Diego	13	481,600	0	0	2,235	0.46%	2,235	0.46%	-	0	0	0	0
East County	153	3,820,903	0	50,000	124,745	3.26%	236,420	6.19%	$2.97	10,859	10,859	51,807	51,807
Southern & Eastern Areas Total	291	8,235,592	137,775	1,840,000	329,418	4.00%	475,023	5.67%	$2.87	39,160	39,160	123,072	123,072
Highway 78 Corridor													
Oceanside	62	1,495,487	0	218,235	122,290	8.18%	149,252	9.98%	$2.68	19,201	19,201	29,648	29,648
San Marcos	38	1,486,212	0	1,470,287	69,708	4.69%	94,344	6.35%	$2.42	(7,439)	(7,439)	20,042	20,042
Vista	51	1,265,005	0	0	256,833	20.30%	164,636	13.01%	$2.59	(21,685)	(21,685)	9,960	9,960
Highway 78 Corridor Total	151	4,246,704	0	1,688,522	448,831	10.57%	408,232	9.61%	$2.56	(9,923)	(9,923)	59,650	59,650
Class A	319	44,305,413	1,775,180	6,541,287	8,007,132	18.07%	10,999,992	23.87%	$3.39	315,956	315,956	887,399	887,399
Class B	1,243	50,049,551	0	3,100,293	5,970,764	11.93%	7,272,997	14.53%	$2.90	(271,300)	(271,300)	639,102	639,102
Class C	611	13,634,317	0	0	955,157	7.01%	1,080,195	7.92%	$2.39	21,486	21,486	160,081	160,081
San Diego County Total	**2,173**	**107,989,281**	**1,775,180**	**9,641,580**	**14,933,053**	**13.83%**	**19,353,184**	**17.63%**	**$3.07**	**66,142**	**66,142**	**1,686,582**	**1,686,582**

This survey consists of buildings greater than 10,000 square feet. Lease rates are on a full-service gross basis.

SD Q1 25

FIRST QUARTER 2025 MARKET REPORT
SAN DIEGO OFFICE

Voit
REAL ESTATE SERVICES

Out With the Old, In With The New

The office market in San Diego is currently undergoing a dynamic transformation, shaped by the post-pandemic work environment, shifting tenant demands and evolving investment strategies. A recent example showcasing this shift is the sale of Symphony Towers in September of 2024, a preeminent 34-story office building in Downtown. The property sold for a significant discount versus the original purchase price in 2003. The sale highlights the challenges which San Diego's office market currently faces, as the adjustment to hybrid and remote work continues to be a significant part of the corporate landscape. This trend has resulted in the softening of demand for traditional office spaces, with many businesses opting for smaller, flexible office environments or fully remote models. However, despite these challenges, the office market in San Diego continues to show signs of resilience as businesses adapt to hybrid work models and seek spaces that promote collaboration, innovation, and overall employee well-being. Downtown remains a desired location for those office tenants seeking an urban environment. Properties like Symphony Towers still hold value in view of the long-term outlook, and attractive discounts on these types of properties represent a unique opportunity for new landlords to stake a presence here in San Diego.

In recent years, there has been an increased tenant demand for office spaces that offer amenities and modern designs, and that provide the path of least resistance when considering relocation. Properties with high-tech features, such as smart-building systems, unique energy-efficient designs, and on-site services like fitness centers and cafes, are becoming more desirable. In terms of location, areas like UTC, Downtown, and Sorrento Valley remain key hubs for commercial office space, with Class A properties—those with premium amenities and modern infrastructure—commanding strong demand in this current flight-to-quality environment. This was borne out in the Class A offices showing significant positive net absorption in the first quarter, while Class B properties saw their tenant occupancy footprint decline. The most desirable offices benefit from proximity to a skilled workforce, transportation options, and a desirable lifestyle, and these characteristics are particularly attractive to businesses in industries such as tech, healthcare, and defense. With that said, older and less modern buildings continue to battle rising vacancy rates, as tenants increasingly prioritize modern designs and upgraded facilities to enhance their working environments. The market's ability to adapt, with developers exploring mixed-use and flexible office solutions, will be crucial in navigating the post-pandemic landscape and ensuring sustained growth in the coming years.

Despite the challenges posed by an ever-changing landscape that continues to shape tenant preferences, San Diego remains an attractive destination for both tech startups and established businesses, with firms looking to capitalize on San Diego's innovation-driven industries. Our city's attractive climate, innovative economy, and lifestyle amenities ensure that demand for office space will endure.

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Product Type

CLASS A: Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

CLASS B: Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

CLASS C: Buildings competing for tenants requiring functional space at rents below the area average.

Submarkets

DOWNTOWN: Downtown

CENTRAL: City Heights / University, Coronado, Kearny Mesa, Mission Gorge, Mission Valley, Old Town / Point Loma, Park East, Rose Canyon / Morena, Uptown / Hillcrest

I-15 CORRIDOR: Escondido, Poway, Rancho Bernardo, Scripps Ranch

NORTH COUNTY COASTAL: Carlsbad, Del Mar Heights / Carmel Valley, North Beach Cities

NORTH CITY: Governor Park, La Jolla, Miramar, Sorrento Mesa, Sorrento Valley, Torrey Pines, UTC

SOUTHERN & EASTERN AREAS: Chula Vista, East County, National City, South San Diego, Southeast San Diego

HIGHWAY 78 CORRIDOR: Oceanside, San Marcos, Vista